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DECLINING LAND VALUES AND AGRICULTURE'S COMPETITIVE POSITION

In a report prepared for the U.S. Senate (*Governing the Heartland: Can Rural Governments Survive the Farm Crisis?*, 1986), questions are raised about the ability of rural America to survive low commodity prices.

A major structural change is underway in American agriculture. It is not news to Nebraskans that grain prices have tumbled and livestock prices lag behind other price increases. In real terms, grain and livestock prices of the 1980s are as low as they were in the 1950s or even 1940s. Declining grain prices combined with the threat of withdrawal of federal price support programs mean additional change may be underway for American agriculture.

Commodity prices are poor because of rising international grain supplies. It is doubtful that American agriculture can insulate itself from this worldwide condition. The Office of Technology Assessment suggests there are approximately 1.5 million middle-sized farms and ranches unlikely to survive in their present form through the year 2000 (*Technology, Public Policy, and the Changing Structure of American Agriculture*, March 1986).

The impact of this adjustment on local governments in rural Nebraska is just beginning. Land values have declined and are not projected to rise soon (Table 1). In fact, they may decline more. Since rural areas depend on property taxes, substantial adjustments in tax levies or curtailment of services will be necessary. In Nebraska approximately 80 of the 93 counties are dependent upon property tax receipts from agriculture. These counties are the same as those considered to be closely related to agriculture, (i.e., if 20 percent of their labor and proprietors income came from farming). In other words, counties with an economic base dependent upon agriculture face some serious revenue problems in the not too distant future.

Although the local tax base is declining, the prospects are dim for an increase in state aid. In Nebraska state aid to cities and counties has been the target of budget cutting. The federal revenue sharing program is being reduced. For rural counties dependent upon agriculture as the main economic activity, a rescue from Washington seems unlikely because of the deficit. Furthermore, state governments are under a mandate to increase their spending for economic development, a spending priority that is likely to rank above assisting local governments.

(continued on page 2)

NUMBER OF FARM ACRES ON FARMS AND AVERAGE VALUE PER ACRE
(TABLE 1)

Year	Number Of Farms (in thousands)	Land In Farms (millionacres)	Index Of Average Value Per Acre (1977=100)d/
1930	129.30	44.60	55.90
1935	134.00	46.90	39.40
1940	121.10	47.40	32.90
1945	111.40	47.60	36.00
1950	107.30	47.20	39.30
1955	95.80	47.50	45.40
1960	88.40	48.00	46.00
1965	78.90	47.80	51.90
1970	72.30	46.00	56.30
1975	67.00	47.90	77.90
1976	67.00	47.90	92.50
1977	66.00	47.80	100.00
1978	66.00	47.70	90.50
1979	65.00	47.70	103.50
1980	65.00	47.70	109.00
1981	65.00	47.70	108.70
1982	63.00	47.50	95.90
1983	62.00	47.40	82.90
1984	60.00	47.20	70.50

ECONOMIC EFFECTS OF DECLINING LAND VALUE

As land values decline, assessed valuations will fall. Either the amount of tax taken from land can decrease or mill levies can go up to compensate for reduced assessed values. If mill levies are increased, to hold tax collections constant, taxes may become more burdensome on agriculture, encouraging production to shift to areas outside Nebraska where the tax base is more diversified. For instance, with the nation generating 1.0 to 2.0 billion bushels of surplus corn, some areas may be removed from production. Some solutions call for across the board reductions in all states, under a regulatory or legislated approach. If the market removes land from production, then Nebraska taxes on agriculture may disadvantage Nebraska because of its higher tax structure. Table 2 presents property taxes on agriculture by state, compared to agricultural cash receipts. Taxes on Nebraska farm property constituted 3.91 percent of cash receipts. Nationally the average was 3.11 percent. Taxes on farm property as a percent of cash receipts were higher in Nebraska than in the nearby states of Kansas, Minnesota, Iowa, Missouri, South Dakota, and North Dakota. All of these states, with the exception of the Dakotas, are more diverse than Nebraska; it is possible to shift taxes to nonagricultural production in these states. An increase in local property taxes may exacerbate Nebraska's agriculture problems. If mill levies are raised more rapidly on Nebraska agriculture relative to agriculture in other states where the economic structure is more diverse and/or if Nebraska tax rates are higher than they are in competing states, Nebraska's ability to produce corn (or any grain) as efficiently will be hindered.

Assume for a moment that taxes cannot be raised on agricultural land because of the impact it will have on Nebraska's ability to compete. Retailers in small rural communities who have difficulty competing with the trade centers because of lack of volume would carry an additional burden. Homeowners would be asked to carry an additional burden to provide education, health and sanitation, roads, and other facilities in the rural areas. The cost to the retailer and the homeowner would rise. It is conceivable that these costs could rise to the extent that it would make Nebraska's smaller communities less attractive. Trade and population would be tempted to move to large communities where the costs are spread among a larger population.

IMPLICATIONS

The implications of declining land values in agriculturally dominated areas of Nebraska are unpleasant. The alternatives appear to be raising local mill levies (i.e., health, education, safety, and roads) upon residential and commercial operations in these counties to provide basic local government services . Agricultural, rural residential, and commercial properties will be taxed, weakening their competitive position compared to states with a more

(continued on page 3)

TAXES ON FARM PROPERTY
(TABLE 2)

State	Cash Receipts 1985 (Millions of Dollars)	Taxes On Farm Property - 1985	Taxes On Farm Property As % Of Cash Receipts
Alabama	2,077	15.20	0.73%
Alaska	26	0.50	1.93%
Arizona	1,529	32.00	2.09%
Arkansas	3,280	52.10	1.59%
California	13,970	231.10	1.65%
Colorado	3,164	65.80	2.08%
Connecticut	316	17.50	5.54%
Delaware	490	1.50	0.31%
Florida	4,741	96.60	2.04%
Georgia	3,327	72.00	2.16%
Hawaii	540	8.70	1.61%
Idaho	2,063	44.00	2.13%
Illinois	7,768	379.70	4.89%
Indiana	4,597	207.00	4.50%
Iowa	9,201	277.80	3.02%
Kansas	5,741	204.90	3.57%
Kentucky	2,871	37.70	1.31%
Louisiana	1,460	21.30	1.46%
Maine	378	14.80	3.92%
Maryland	1,148	28.90	2.52%
Massachusetts	389	16.30	4.19%
Michigan	2,850	241.30	8.47%
Minnesota	5,472	145.10	2.65%
Mississippi	2,136	35.00	1.64%
Missouri	3,668	104.70	2.85%
Montana	1,207	82.80	6.86%
Nebraska	7,206	282.10	3.91%
Nevada	222	3.60	1.62%
New Hampshire	107	7.00	6.54%
New Jersey	592	38.40	6.49%
New Mexico	1,086	11.30	1.04%
New York	2,564	163.20	6.36%
North Carolina	3,914	66.70	1.70%
North Dakota	2,746	94.50	3.44%
Ohio	3,941	131.00	3.32%
Oklahoma	2,664	83.60	3.14%
Oregon	1,778	63.50	3.57%
Pennsylvania	3,150	98.80	3.14%
Rhode Island	63	4.20	6.69%
South Carolina	1,032	16.10	1.56%
South Dakota	2,979	108.80	3.65%
Tennessee	2,057	52.70	2.56%
Texas	9,298	277.10	2.98%
Utah	548	22.60	4.13%
Vermont	384	19.30	5.03%
Virginia	1,627	55.50	3.41%
Washington	2,797	73.60	2.63%
West Virginia	241	6.80	2.82%
Wisconsin	5,112	281.10	5.50%
Wyoming	589	27.50	4.67%
United States	142,103	4423.10	3.11%

Source: Economic Indicators of the Farm Sector, United States Department of Agriculture

diverse economic base. Over time, the agricultural production base in Nebraska may be expected to lose its competitive position. If the taxes are placed upon commercial and residential areas, these activities may be impacted adversely. Without a substantial injection of state aid to local governments, small nondiversified farming and ranching communities seem destined to decline in Nebraska and other places in the Great Plains. A reduction in public services only will make Nebraska's rural communities less attractive to outside investors.

The prospects for substantial increases in state aid seem remote. The nonagricultural portions of the state's economy would have to increase taxes upon activities conducted in the metropolitan areas, wages and salaries, retail sales, etc., and then transfer this money to the agricultural communities. This could help to solve some of the rural communities' immediate problems, but it is doubtful that sufficient funds could be transferred over an extended period to halt the erosion that is likely to take place in rural Nebraska.

Counties most dependent upon agricultural property taxes are summarized in Table 3. They are ranked according to the percent of property taxes levied from agricultural land. Sixty-five counties generate 43.5 percent of their property tax from agricultural land or agricultural improvements.

Table 3 sets out the percent of farm income whether it is proprietors income or wage and salary income by the counties. Since agricultural income fluctuates widely in any given year, a three-year average is used. There is a close match between percent of income generated from agriculture and the percentage of property taxes generated from agricultural land and improvements.

To summarize, the alternatives facing the state's rural communities are as follows: increase taxes on agriculture; shift local taxes to commercial areas and homeowners; secure and increase the amount of state aid; reduce basic government services (such as road maintenance, education, public healthcare delivery, sanitary conditions, etc.); or diversify local economies toward some nonagricultural activities with an economic development program. Shifting taxes to agriculture and/or retailers and homeowners is likely to hasten the declines of the communities because it will weaken their competitive position. If taxes were to rise sufficiently in some small communities, it 's not unreasonable to expect an increasing abandonment of commercial real estate and residential real estate in these areas. The prospects for state aid do not seem to be particularly good. Reducing services may be difficult. Service reduction is incompatible with promoting economic development. Diversification of local economies will not stop the decline in many of these communities, but it may permit a few communities to improve their chances for expanding and surviving into the 21st century.

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MEASURING NEBRASKA BUSINESS

Year and Quarter	Millions of Dollars 1981:3	1985:3	1986:3	% Change 1985-1986	% Change 1981-1986
Total Personal Income	17,084	20,765	21,163	1.92	23.88
Nonfarm Personal Income	15,776	19,513	20,202	3.53	28.06
Farm Personal Income	1,308	1,252	961	-23.24	-26.53
Wages and Salaries	9,179	11,183	11,516	2.98	25.46
Other Labor Income	817	1,052	1,091	3.71	33.54
Proprietors' Income	2,499	2,829	2,791	-1.34	11.68
Farm Proprietors' Income	1,117	1,046	748	-28.49	-33.03
Nonfarm Proprietors' Income	1,382	1,783	2,043	14.58	47.83
Construction	667	825	966	17.09	44.83
Manufacturing	1,893	2,112	2,067	-2.13	9.19
Transportation and Public Utilities	1,330	1,598	1,635	2.32	22.93
Wholesale Trade	982	1,072	1,065	-0.65	8.45
Retail Trade	1,261	1,462	1,504	2.87	19.27
Finance, Insurance, and Real Estate	761	1,077	1,180	9.56	55.06
Services	2,019	2,815	3,027	7.53	49.93
Federal Civilian Government	341	427	470	10.07	37.83
Military Government	253	350	379	8.29	49.80
State and Local Government	1,522	1,903	1,965	3.26	29.11

ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

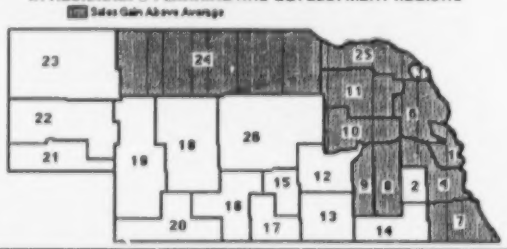
November 1986 Indicator	Current Month as Percent of Same Month Previous Year Nebraska	U.S.	1986 to Date as Percent of 1985 to Date Nebraska	U.S.
Dollar Volume	103.40	104.20	102.00	104.20
Agricultural	94.30	89.80	88.20	93.10
Nonagricultural	105.00	104.50	104.30	104.80
Construction	84.90	105.40	95.80	106.30
Manufacturing	101.00	97.20	97.90	96.60
Distributive	106.40	106.60	105.40	106.60
Government	107.40	105.70	106.70	106.40
Physical Volume	103.30	103.00	100.20	102.60
Agricultural	101.50	90.90	91.90	97.30
Nonagricultural	103.70	103.40	102.00	102.70
Construction	83.30	103.40	93.40	103.70
Manufacturing	103.40	99.90	99.70	98.70
Distributive	105.10	105.20	103.30	104.80
Government	103.40	101.70	102.50	102.20

2. CHANGE FROM 1967

Indicator	Percentage of 1967 Average Nebraska	U.S.
Dollar Volume	396.60	480.40
Agricultural	405.70	334.50
Nonagricultural	395.00	485.10
Construction	220.20	502.00
Manufacturing	372.30	310.10
Distributive	410.60	578.70
Government	496.30	495.30
Physical Volume	136.80	155.50
Agricultural	181.90	142.30
Nonagricultural	129.90	155.90
Construction	60.00	136.80
Manufacturing	152.60	124.50
Distributive	124.10	174.90
Government	157.90	156.90

1986 YEAR TO DATE AS PERCENT OF 1985 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS

Sales Gain Above Average



3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number and City*	City Sales** November 1986 as percent of November 1985	Sales in Region** November 1986 as percent of November 1985	1986 to Date as percent of 1985 to Date
The State	106.40	106.80	107.50
1 Omaha	108.50	108.60	109.20
Bellevue	108.70		
Blair	102.80		
2 Lincoln	108.00	108.10	107.40
3 South Sioux City	120.70	120.60	110.60
4 Nebraska City	100.00	101.30	108.80
6 Fremont	100.80	105.20	109.70
West Point	104.90		
7 Falls City	103.90	104.40	108.60
8 Seward	112.90	105.50	112.40
9 York	104.30	108.50	110.80
10 Columbus	99.70	101.60	107.90
11 Norfolk	111.30	112.00	111.40
Wayne	102.50		
12 Grand Island	106.10	107.20	105.40
13 Hastings	105.90	104.50	106.70
14 Beatrice	99.20	97.40	106.10
Fairbury	93.40		
15 Kearney	102.80	101.20	106.70
16 Lexington	108.20	106.50	102.10
17 Holdrege	100.60	104.50	104.40
18 North Platte	104.90	104.90	106.40
19 Ogallala	126.40	113.30	103.20
20 McCook	104.30	98.40	100.90
21 Sidney	98.80	93.40	92.60
Kimball	80.80		
22 Scottsbluff/Gering	101.90	100.70	102.40
23 Alliance	102.10	96.90	103.50
Chadron	89.20		
24 O'Neill	127.90	114.40	108.60
25 Hartington	96.00	99.10	113.70
26 Broken Bow	96.30	102.00	104.70

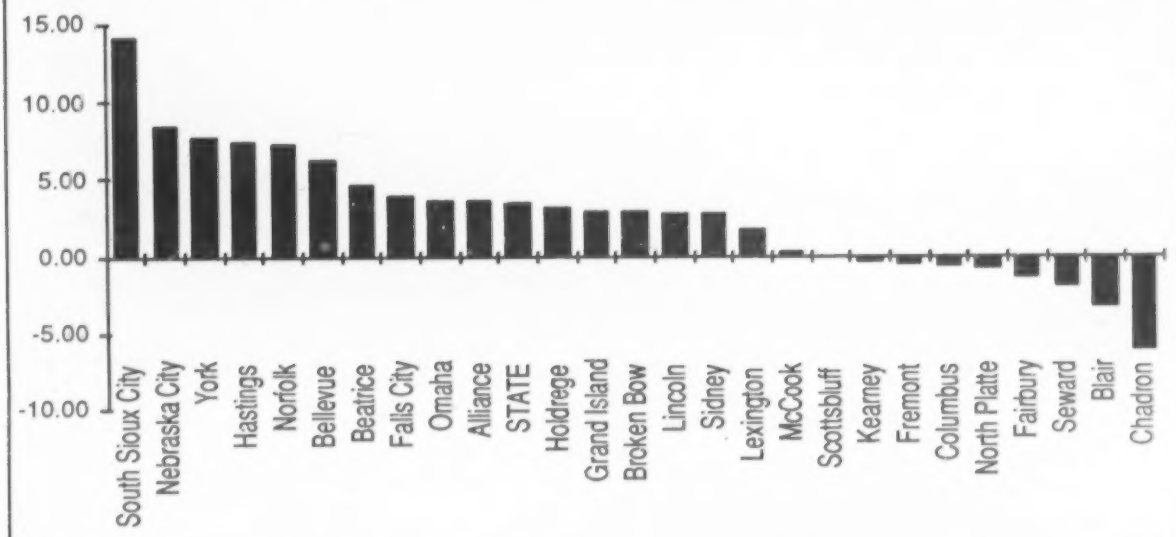
* See region map below.

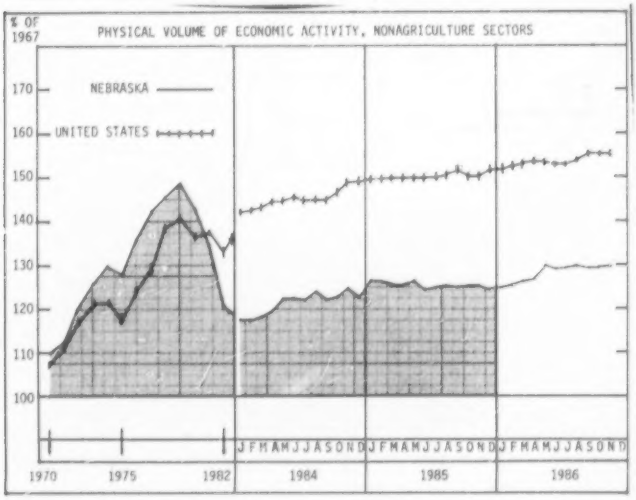
** Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.

Compiled from data provided by Nebraska Department of Revenue

MEASURING NEBRASKA BUSINESS

City Business Index
Percent Change November 1985 to November 1986





5. PRICE INDEXES

November 1986	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	330.80	101.30	102.00
Commodity Component	284.00	98.20	99.10
Wholesale Prices	298.70	96.40	99.20
Agricultural Prices			
United States	235.00	98.70	95.60
Nebraska	223.00	92.90	95.30

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture

4. November 1986 CITY BUSINESS INDICATORS

The State and Its Trading Centers	Employment (1)	Building Activity (2)	Power Consumption (3)
The State	100.90	88.10	98.60
Alliance	98.90	163.90	94.90
Beatrice	102.30	196.30	106.80
Bellevue	98.60	155.20	99.70
Blair	98.60	37.80	100.30
Broken Bow	102.50	173.20	106.80
Chadron	99.50	68.10	100.80
Columbus	102.50	59.30	96.10
Fairbury	101.90	97.60	98.90
Falls City	102.90	102.30	112.00
Fremont	102.50	54.70	85.20
Grand Island	103.20	65.00	94.60
Hastings	103.00	175.10	168.40
Holdrege	102.40	124.90	102.60
Kearney	102.10	49.00	78.20
Lexington	101.70	47.40	104.50
Lincoln	99.10	77.90	102.60
McCook	100.90	55.60	95.70
Nebraska City	102.60	390.10	99.00
Norfolk	102.10	108.70	92.20
North Platte	101.60	38.00	102.10
Omaha	98.60	93.30	100.30
Scottsbluff/Gering	102.40	56.30	99.40
Seward	103.00	12.70	106.10
Sidney	102.00	141.50	95.20
South Sioux City	100.50	222.00	96.00
York	102.50	221.50	102.10

(1) As a proxy for city employment, total employment for the county in which a city is located is used.
(2) Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
(3) Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.
Source: Compilation by Bureau of Business Research from reports of private and public agencies.

TABLE 3

	1984 Ag Property Tax As % Total Property Tax		Income From Agriculture 3 Year Average		1984 Ag Property Tax As % Total Property Tax		Income From Agriculture 3 Year Average	
1	Banner	99.88	1 Arthur	41.70	48 Kearney	75.63	48 Hooker	12.12
2	Arthur	97.36	2 Loup	41.14	49 Burt	75.50	49 Fillmore	12.09
3	Wheeler	96.79	3 Banner	36.86	50 Morrill	74.91	50 Seward	11.79
4	McPherson	96.58	4 Sioux	33.33	51 Garfield	74.79	51 Valley	11.73
5	Loup	95.56	5 Hayes	31.94	52 Dixon	74.26	52 Richardson	11.66
6	Blaine	95.43	6 Rock	31.49	53 Stanton	74.10	53 Thayer	11.60
7	Sioux	95.09	7 Wheeler	29.91	54 Pierce	73.63	54 Colfax	11.58
8	Hayes	94.95	8 Perkins	28.90	55 Holt	72.34	55 Howard	11.40
9	Grant	94.04	9 Grant	28.40	56 Jefferson	71.85	56 Saline	10.85
10	Keya Paha	92.58	10 Blaine	28.34	57 Phelps	71.58	57 Hitchcock	10.73
11	Gosper	91.94	11 Garden	27.58	58 Knox	70.94	58 Dixon	10.60
12	Frontier	89.90	12 Antelope	27.29	59 Sheridan	70.10	59 Webster	10.48
13	Logan	89.56	13 Polk	26.02	60 Saunders	70.08	60 Kimball	10.18
14	Pawnee	88.46	14 Gosper	25.49	61 Nemaha	69.95	61 Otoe	9.75
15	Dundy	88.00	15 Dundy	24.72	62 Cuming	69.50	62 Cheyene	9.65
16	Garden	86.92	16 McPherson	24.05	63 Brown	68.56	63 Jefferson	9.64
17	Franklin	85.22	17 Keya Paha	23.73	64 Richardson	68.05	64 Sheridan	9.35
18	Sherman	85.21	18 Greeley	23.32	65 Valley	66.69	65 Platte	9.06
19	Hitchcock	84.13	19 Burt	23.30	66 Wayne	65.03	66 Thomas	8.68
20	Perkins	83.76	20 Hamilton	23.23	67 Colfax	63.75	67 Nuckolls	7.61
21	Polk	83.59	21 Butler	22.98	68 York	63.60	68 Wayne	7.34
22	Greeley	83.07	22 Nance	22.30	69 Kimball	62.61	69 Dawson	7.30
23	Rock	82.74	23 Kearney	22.07	70 Seward	62.47	70 Box Butte	7.18
24	Thomas	82.08	24 Franklin	21.68	71 Saline	62.38	71 Washington	7.09
25	Webster	81.92	25 Logan	21.26	72 Dawson	61.64	72 Keith	6.98
26	Harlan	81.89	26 Boone	19.45	73 Washington	60.67	73 Garfield	6.89
27	Furnas	81.58	27 Morrill	18.92	74 Otoe	60.03	74 Custer	6.65
28	Boyd	81.45	28 Brown	18.61	75 Cheyenne	58.83	75 Gage	6.51
29	Cherry	81.39	29 Stanton	18.50	76 Gage	55.09	76 Dodge	6.51
30	Butler	80.57	30 Chase	18.37	77 Keith	50.94	77 Dawes	6.44
31	Johnson	80.45	31 Clay	17.66	78 Red Willow	50.03	78 Adams	6.13
32	Nance	80.09	32 Phelps	16.47	79 Box Butte	47.92	79 *Nebraska*	5.65
33	Thurston	80.08	33 York	16.10	80 Cass	47.11	80 Johnson	5.41
34	Clay	80.00	34 Deuel	15.72	81 Dawes	45.00	81 Madison	5.38
35	Chase	79.80	35 Sherman	15.38	82 Buffalo	44.83	82 Cass	5.37
36	Antelope	79.79	36 Merrick	15.37	83 *Nebraska*	43.97	83 Knox	5.36
37	Merrick	79.70	37 Pawnee	15.22	84 Lincoln	39.82	84 Thurston	5.16
38	Thayer	79.69	38 Cuming	14.96	85 Adams	38.93	85 Furnas	4.66
39	Hamilton	79.41	39 Boyd	14.68	86 Dodge	36.85	86 Red Willow	4.60
40	Howard	78.83	40 Cedar	14.30	87 Platte	34.44	87 Buffalo	4.18
41	Fillmore	78.52	41 Cherry	14.22	88 Dakota	32.76	88 Lincoln	3.94
42	Boone	78.25	42 Holt	13.83	89 Madison	29.63	89 Scotts Bluff	3.73
43	Hooker	78.21	43 Saunders	12.80	90 Scotts Bluff	28.55	90 Dakota	3.28
44	Deuel	77.86	44 Frontier	12.46	91 Hall	24.42	91 Hall	2.77
45	Custer	77.52	45 Harlan	12.40	92 Lancaster	9.28	92 Lancaster	0.85
46	Nuckolls	77.18	46 Pierce	12.37	93 Sarpy	6.78	93 Sarpy	0.83
47	Cedar	77.04	47 Nemaha	12.17	94 Douglas	1.67	94 Douglas	0.25

Source: Bureau of Economic Analysis—Washington, D.C.

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